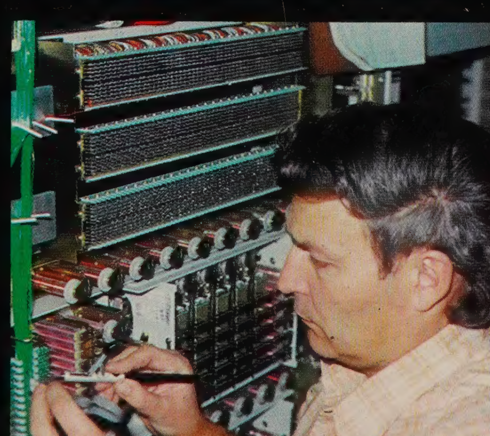
British Columbia Telephone Company

ANNUAL REPORT 1972



Head Office

768 Seymour Street, Vancouver 2, B.C., Canada

Transfer Agent and Registrar

Montreal Trust Company

DUPLICATE ANNUAL REPORTS

Every effort has been made to eliminate duplications in our shareholders mailing list. However, if you do have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

81st Annual Report
British Columbia Telephone Company

Incorporated by Special Act of the Parliament of Canada, April 12, 1916

The Report at a Glance

Financial	1972	1971
Operating revenues	$227,765,000	$199,892,000
Operating expenses	$180,305,000	$158,818,000
Earnings before interest and other deductions	$ 49,616,000	$ 42,497,000
Average invested capital	$634,417,000	$577,456,000
Return on average invested capital	7.82%	7.36%
Ordinary share earnings	$ 19,762,000	$ 15,818,000
Earnings per average ordinary share	$ 6.11	$ 5.33
Dividends declared per ordinary share	$ 3.20	$ 3.20
Equity per ordinary share	$ 59.76	$ 57.02
Gross plant additions	$132,405,000	$113,106,000

Other	1972	1971
Telephones in service	1,180,338	1,099,791
Telephone gain for the year	80,547	62,107
Average ordinary shares outstanding	3,236,625	2,966,906
Number of employees	10,816	10,274

Directors

HARRY M. BOYCE
Chairman of the Board
Yorkshire Trust Company
Vancouver, B.C.

JAMES J. CLERKIN, JR.
Executive Vice-President – Telephone Operations
General Telephone & Electronics Corporation
New York, N.Y.

JOHN L. FARRIS, Q.C.
Senior Partner
Farris, Farris, Vaughan, Wills & Murphy
Vancouver, B.C.

THEODORE S. GARY
Company Director
Miami Beach, Florida

GERALD H. D. HOBBS
Executive Vice-President
Cominco Ltd.
Vancouver, B.C.

ALLAN M. McGAVIN
Chairman
McGavin ToastMaster Limited
Vancouver, B.C.

VICTOR F. MacLEAN
President and Chief Executive Officer
Kelly, Douglas & Company, Limited
Vancouver, B.C.

*JOHN A. McMAHON
Chairman and President
Inland Natural Gas Co. Ltd.
Vancouver, B.C.

WINFIELD S. PIPES
Company Director
Vancouver, B.C.

J. ERNEST RICHARDSON
Chairman, President and Chief Executive Officer
British Columbia Telephone Company
Vancouver, B.C.

RICHARD B. WILSON
Company Director
Victoria, B.C.

** Deceased November 30, 1972*

Officers

J. ERNEST RICHARDSON
Chairman, President and Chief Executive Officer

GILBERT F. AUCHINLECK
Vice-President – Staff (Operations)

TERENCE F. HEENAN
Vice-President – Operations

GORDON F. MacFARLANE
Vice-President – Corporate Development

JAMES A. MacINNES
Vice-President – Public Affairs

D. BARRY McNEIL
Vice-President – Comptroller

FRANK S. TUCKER *(February 1, 1973)*
Vice-President - Personnel and Industrial Relations

ROLAND J. BOUWMAN
General Counsel and Secretary

AUBREY W. VAUGHAN
Treasurer

DARELL CAMPBELL
Assistant Secretary and Assistant Treasurer

J. NEIL STEWART
Assistant Treasurer

Winter's coldest blasts seem to converge on mountaintop microwave sites — as in the case of Dog Mountain, near Hope, where this mantle of snow and ice caused severe maintenance problems.

Report of Directors

Unprecedented growth in residential service, increased demand for more sophisticated business systems and constant need to upgrade existing facilities made 1972 one of the most challenging years in our Company's history.

The substantial growth of the Province's telecommunications requirements made it essential that the Company intensify its search for new ways to obtain an effective balance between services and costs.

In the face of a continuing upward spiral in cost factors, the Company made record expenditures for new plant and improvements throughout its operating territory. In addition, the Company initiated new programs aimed at increasing operating efficiency and reducing expenses. These efforts are being continued on an even greater scale during 1973.

There were many challenges confronting the Company during 1972, not the least of which was the deep involvement of meeting the task of updating to the requirements of an expanding industry. This task is not exclusive to our Company. Telecommunications carriers throughout North America are engaged in concentrated efforts to cope effectively with the rapid and profound changes which are occurring in all sectors of their activities.

J. Ernest Richardson

SYMBOL OF CHANGE

A classic symbol of that change was the launching on November 9, 1972, of Anik I, Canada's first domestic communications satellite. Anik I is owned by Telesat Canada, of which we are shareholders together with other telecommunications carriers and the Government of Canada. One of our tasks was to provide a new microwave system which connects Telesat's western earth station at Lake Cowichan, B.C., to the Trans-Canada Telephone System.

The success of the Anik project highlighted the tremendous potential of the telecommunications industry. But it also served to reemphasize the scope not only of the Company's social and financial commitment to the people of British Columbia, but also of our responsibility to Canada as a whole.

In order to meet these responsibilities we must intensify constantly our efforts to provide an improving grade of service to our customers. To do that we must devise means to ensure a parallel acceleration in revenues and capital funds. Whether these be generated internally or externally, this must be accomplished while ensuring fair returns to our investors.

IMPROVED EARNINGS

Of particular importance to you, our shareholders, is the status of the Company's earnings. We are pleased to report a continuation of the upward trend that appeared in 1971 following the decline reported in 1970. Several factors contributed to the improved financial results. These included the revised tariffs approved by the Canadian Transport Commission and implemented September 1, 1971, and reduced income taxes established in mid-1971 and continued throughout the year under review.

Other factors responsible for the continuation of this upward movement were an improvement in economic conditions in the Province and a successful drive for greater operating efficiency within the Company. All these elements were reflected both in our earnings and other growth indicators directly related to the Company.

The result was consolidated earnings of $6.11 per average ordinary share, compared with restated earnings of $5.33 in 1971 and $5.01 in 1970. Over the last 10 years the growth in earnings has been at the rate of 6.38% per year.

A STATISTICAL PICTURE

The earnings figures represent a return on average invested capital of 7.82%, a rate regarded by the Company as not being satisfactory at a time when the Company is proceeding at a rapid pace with needed expansion and improvement of its system. The extent of that service commitment can be seen in the figures for gross investment in plant additions which totalled $132.4 million during 1972 — a record annual figure.

The funds required to carry out the service improvement and plant expansion program and to repay short-term loans outstanding at the beginning of the year were generated internally to the extent of $74 million. A total of $80 million was provided through the sale of Company securities.

The Company raised $60 million through issues of first mortgage bonds. Another $20 million was raised through an offering of preferred shares. The bonds were sold at rates ranging up to 8⅝% — a significant increase over the 7⅞% rate of bonds issued late in 1971. Details of these issues are outlined more fully in the Financial Report.

The growth of the Province and of the Company was reflected also in the figures on connection and disconnection of telephones requested by business and residential customers throughout our operating territory.

A total of over 412,000 telephones were connected to the Company's system during 1972, while there were nearly 332,000 disconnections. This represented a net gain of 80,547 telephones, exceeding by 29.7% the net gain of 62,107 telephones recorded in 1971. A total of 1,180,338 telephones were in service at the end of 1972, a net increase of 7.3% over the number in service at the end of 1971.

The gain in telephones was nearly 25% greater than anticipated, placing a considerable strain on our ability to provide the equipment and trained personnel necessary to maintain a high grade of service. Even greater percentage increases were recorded in specific areas such as Victoria and the rapidly-developing suburban communities south and east of Vancouver. The development of major new subdivisions in such areas often is impossible to forecast — posing a problem for other suppliers of utilities as well as for our Company. The rapidity and extent of the growth in demand for our services can be seen in the fact that our original capital budget of over $163 million for 1973 has had to be increased by $9 million to meet the most recent developments in the Province. Of that amount, $3 million will be spent in the Lower Fraser Valley alone on a special program tailored to meet the area's requirements for individual line service.

NEW RATE CONCEPT

A new rate concept for long distance calls was approved by the Canadian Transport Commission and went into effect November 5th. Similar changes were made simultaneously in the rate structures of other member companies of the Trans-Canada Telephone System.

Because of the lower labor content on calls dialed directly the new rate structure is designed to encourage our customers to dial their own calls at charges lower than operator-handled calls. The previous three-minute minimum on customer-dialed calls has been reduced to one minute. Discounts are offered on customer-dialed calls made in the evenings, late night periods and Sundays when facilities are not under peak usage.

The new structure increased the price of some long distance calls and reduced the price of others. The Company estimates that the increases and decreases will offset each other so that no change in long distance revenues will result.

EFFICIENCY PROGRAMS

The moderate increase in tariffs approved in 1971 and the successful sale of the Company's securities will not, in themselves, be sufficient to ensure both our service and earnings objectives. Our continuing program aimed at improving performance and effectiveness through the development of plans which place a premium on innovation, motivation and efficiency was strengthened. To do this the Company created a new program called "Challenge of '72", a total Company effort to deal with rising costs and other problems.

The main elements of Challenge of '72 included dissemination among employees of the results of the 1971 rate case decision when only 55%, or $9.4 million, of the Company's application was granted. The resulting impact on our operations was stressed and this topic formed the basis of a dialogue between the Company's senior management and its personnel.

The resultant action programs realized the Company's expectations for improved performance. Savings occurred in spite of work volumes being much greater than anticipated. By their response to the program's objectives, employees demonstrated their ability to assist the Company in coping with the pressures it faces.

Another program was introduced later in the year as part of the Company's drive to develop innovative systems and procedures to replace the time-honored methods of the past. We call this major effort the "Performance Improvement Program".

Under this program, task forces are formed to make intensive, in-depth analyses of specific areas of the Company's operations and submit recommendations for improvements. While the program did not start until mid-year its effectiveness was proven when comprehensive reports on two areas — central office exchange maintenance and residential repair — were submitted by year end. Implementation of their excellent recommendations began immediately.

In the area of residential repair, a plan was devised to improve and speed up procedures for identifying, isolating and repairing troubles reported by customers. This will result in more efficient use of Company personnel and equipment.

Improvements in central office exchange maintenance related to the introduction of standardized trouble-shooting methods, improvements in assignment scheduling and more efficient use of job specialists. The task force report also contained recommendations on the centralization of major repairs. One of the basic thoughts behind these recommendations was that the old and traditional ways of doing things are not always the best under present circumstances. Consequently, our methods must be reviewed continually.

TRAINING PROGRAM

Despite the improvements expected as a result of efficiency programs and new technology, the service demands originating from economic growth and an expanding population made it imperative that the Company continue to increase its work force.

To meet this requirement the Company engaged an additional 542 personnel during 1972 to bring the total number of personnel to 10,816. The additional staff included 226 construction, installation and maintenance apprentices required to expand and upgrade customer facilities.

In order to ensure continued improvement in the quality of customer service the Company expanded its plant training program and fully implemented a new training schedule. A total of 1,925 plant training certificates were issued during 1972 to craft apprentices and permanent plant employees. Many of the permanent employees took as many as three or four of the 97 available courses in order to acquire the knowledge necessary to perform a wide range of functions necessitated by modern technology.

The year marked the first full-scale enrolment in a new training program employing a self-paced concept. Under this program, craft apprentices learn at their own speed in order to ensure complete understanding of all instructional material. The new technique is part of a 120-day program under which trainees undergo 10 weeks of general instruction followed by seven weeks of specialized training.

COLLECTIVE AGREEMENT

The Working Agreement between the Company and the Federation of Telephone Workers of British Columbia was for a period of two years and remained in force until December 31, 1972. Negotiations leading to a new Agreement were commenced during the latter part of 1972. However, when differences could not be resolved a Federal Conciliation Officer was appointed and further meetings held. At the time of writing the Conciliation Officer has reported to the Federal Minister of Labor his inability to bring about a settlement and the third legal step, that of forming a Conciliation Board, is now in progress.

SHARE PURCHASE PLAN

In another development affecting employees, the Company introduced a new share purchase plan in June. The Company believes this plan will provide employees with an added incentive as well as a means by which they can share in the results of improved performance.

Under the plan, approved by the Canadian Transport Commission, ordinary shares of British Columbia Telephone Company were made available to more than 9,500 employees of the Company and its subsidiary, Okanagan Telephone, with more than three months' service. A total of 1,510 employees subscribed for 20,061 shares. The shares are to be purchased by payroll deduction over the period of one year at a price established at 85% of the market price but not less than book value. An employee may elect to cancel his subscription at any time and his payments will be returned with interest.

LOOKING AHEAD

The prospects for continued economic expansion in British Columbia give reason to anticipate another year of growth both in the number of customers served and in the use made of the Company's facilities. To provide for this will require expenditures of a record \$172.3 million for plant and equipment during 1973. While we are aware that growth opportunities will be available to the Company, we are equally aware of factors which may mitigate against our efforts to provide increasing improvements in service to our customers and an appropriate return on your investment.

Chief among these factors are the uncertainties of the situation with regard to income taxes and

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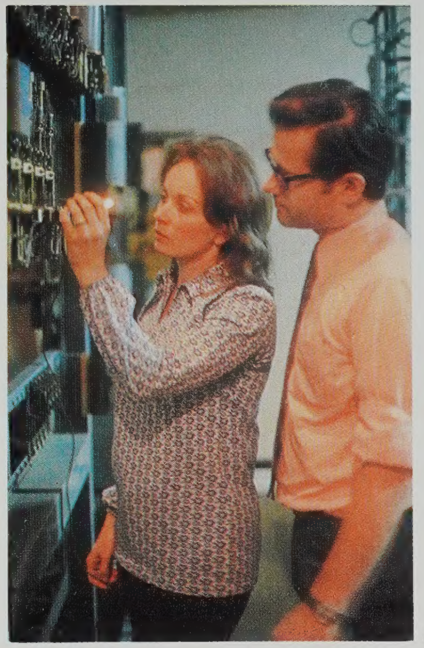 2.

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1. A quality television signal — closed circuit or by either of two networks — is carried through Vancouver's Toll Operating Centre, providing entertainment for thousands in all parts of the Province.

2. Women began to make their presence felt in the maintenance of British Columbia's telephone system. A class training in central office maintenance included a woman — a B.C. Tel "first".

3. Maintenance of the Mount Hayes microwave site near Prince Rupert, serving the Queen Charlotte Islands, can be a chilly assignment.

interest rates, the limitations imposed on the Company by a government-regulated rate structure and the effects of continuing inflation, particularly in the area of wages. Equally important is the increasing challenge of competition for capital financing and in fast-growing market areas such as data transmission and specialized communications services.

Our awareness of these factors gives added impetus to our drive for heightened efficiency in all aspects of our operations. Our record-breaking capital expenditures are evidence of our determination to meet our customers' growing and diversified requirements. And we are continuing our efforts to ensure that regulatory bodies and all levels of government are kept apprised of the economics of our operations.

We have already mentioned our plans with reference to efficiency. Some specific projects aimed at improving customer facilities and service are detailed in the Review of Operations.

The largest single project ever undertaken by the Company will begin later this year. We refer to the installation in our headquarters building in Vancouver of a Traffic Service Position System (TSPS). The total cost of installation, including toll switching equipment, will be $12.5 million. This system—the first to be installed by a telephone company in Canada—will be operational in 1974. It sets a new standard for speed and efficiency in the processing of toll calls requiring operator assistance.

With TSPS, many of the technical and administrative procedures now performed manually will be done automatically. Most calls will be extended automatically to their destination, resulting in a significant saving in time as the call proceeds even while the operator is obtaining the required information. In addition to the direct improvement in service to customers, TSPS will also effect greater efficiencies by automating timing and billing procedures and reducing billing errors. Even the time required to train operators will be reduced.

More than 6,000 feet of telephone cable was placed on the face of Grouse Mountain with the aid of the gondola lift. This work had to be completed at night when the lift was not in use.

A major undertaking in the placement of cable took place in the scenic Howe Sound area, where plows placed lines of communications underground north of Squamish to meet a growing need for services.

REGULATORY MATTERS

An important development related to costs was initiated in 1972 by the Telecommunication Committee of the Canadian Transport Commission. The Committee established an inquiry into the costing and accounting procedures of the telecommunications carriers under its jurisdiction and the implications with reference to rates and services. Our Company, as one of the carriers coming within the Committee's jurisdiction, welcomed the establishment of the Cost Study. We are participating directly in this project in having a Company representative on the Technical Committee set up for the study.

A successful Cost Study would, in the Company's view, produce a climate in which decisions on rate applications by the telecommunications carriers would be expedited. It would ensure that the Telecommunication Committee obtain relevant information on a continuing basis. This would result in the Committee having detailed foreknowledge of a carrier's operations rather than having to spend time collecting and correlating that information at the time a rate application is made.

Similarly, the Company welcomed the initial report on interconnection issued by the Department of Communications during 1972 in the form of a Grey Paper. The Paper generally supports recommendations contained in an earlier report submitted by the Company to the Department. Our report emphasized the importance of introducing in an orderly fashion the connection of customer-owned facilities with the common carrier networks in Canada.

Shareholder Statistics

December 31, 1972

	B.C.	OTHER CANADA	U.S.A.	OTHER	TOTAL
LOCATION OF SHAREHOLDERS					
Ordinary shares	3,031	2,536	190	93	5,850
Preference and preferred shares	11,098	7,182	167	65	18,512
	14,129	9,718	357	158	24,362
SHARES HELD					
Ordinary shares	378,909	2,791,360	25,865	40,491	3,236,625
Preference and preferred shares	886,309	1,640,293	4,740	3,658	2,535,000

SIZE OF HOLDINGS – NUMBER OF HOLDERS

	100 and Under	101-5000	Over 5000	Total
Ordinary shares	3,994	1,811	45	5,850
Preference and preferred shares	15,040	3,441	31	18,512

The Gulf Islands wouldn't be nearly as attractive without communications. This calls for the placement of submarine cable — a tricky and sometimes perilous job.

Overhead cable on the Skeena River brought new and improved service to the Thornhill area near Terrace — part of a $600,000 project.

Our primary concern in this area is that the interests of our customers be protected. We are concerned that competitors might be allowed to interconnect with our facilities only in major marketing areas. This would mean that our Company would have to provide similar services in areas where there would be an uneconomical rate of return on our investment. Our operations in those areas then would have to be subsidized through higher rates to all subscribers.

We also are concerned that the quality of our network transmissions be protected. Interconnection of customer-owned equipment can result in static, overlap and damage to network facilities. We feel it would be advisable that such connections continue to be made only through coupling equipment. Couplers perform the task of integrating disparate electrical systems.

We also remain ready to undertake the further necessary effort required in working with the Department of Communications in translating into action the recommendations of its Computer Communications Task Force. We are in full accord with the central theme of the Task Force report issued during 1972. The report states that the rapid development of computer communications is vital to Canada's future and should be allowed to proceed within a competitive environment.

Our main concern here is that the roles of government and the common carriers be clearly defined. The Company's recommendation is that the Government of Canada take the role of co-ordinator among the provinces, while the common carriers be left with the responsibility for planning and development of data transmission systems.

We regret that statements of the new Provincial Government with regard to our Company for possible takeover have had an adverse effect on the market price of our shares.

We are advised, that as we are a Company incorporated by a Special Act of Parliament, only parliament at Ottawa has jurisdiction. We would therefore take steps to oppose any attempt at a legislated acquisition of our shares or assets. Shareholders, the majority of whom reside in British Columbia, can be confident that every possible step will be taken to protect their interests.

In summary, the Board of Directors feels that the year just past can be viewed with a sense of achievement—much has been accomplished, more is required. We trust that the steps we are taking to meet our responsibilities will form an effective reply to the challenges ahead.

At this time I wish to record the deep regret of the Board at the passing, on November 30, 1972, of John A. McMahon, who had been a Director of this Company since March 1963. Mr. McMahon's intimate knowledge of this Province, of its potential and its problems, made his counsel invaluable. The benefit of his wisdom will be greatly missed.

On behalf of the Board of Directors

President and Chief Executive Officer

February 8, 1973.


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Communication via satellite was realized through completion of a $1-million microwave system between Lake Cowichan on Vancouver Island and Vancouver in June. It provided a direct link with both Intelsat IV and Anik I and resulted in improved communications with Pacific Rim countries, additional television channels to the microwave network and service to the far northern regions of Canada.

Building a better telephone system is a job which requires constant attention, effort and resources. In 1972, B.C. Tel spent more than $132 million to provide new and improved services. The number of telephones in service jumped to 1,180,338 — a 7.3% increase. These are some of the instances of the growth story:

1. The telecommunications business was brisk in Prince George, where the installation of switching equipment hit its peak early in the year, prior to the completion of a $2.9 million communications centre in the heart of the city. One of the most important aspects of the building is new toll switching equipment which is electronically controlled.

2. It's cold, barren and very remote at 6,300-foot high Black Tusk microwave site, and regular maintenance calls are made via sno-cat.

3. One of the focal points of activity was at Whalley, on the fringe of the Fraser Valley, where B.C. Tel's customer service forces felt the surge of growth more than in any other region.

4. There was a new Centrex switching machine, costing $2.5 million, installed at the Company's headquarters building in Vancouver to serve business customers in the downtown area.

5. and 6. At Masset on the Queen Charlotte Islands, an enterprising customer employed a radiotelephone in the "belly" of a clamdigger so he could maintain direct communication with his three-man crew. The unit presented a rather weird scene as it stood on the beach, 18 miles north of Masset.

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1. A team of first aid experts from the Coastal Division's Construction Department carried the message of industrial safety all the way to England in a trade of ideas and spirited competition.

2. Thousands of feet of plastic pipe were ploughed and trenched into the ground near Abbotsford to provide facilities for the growing Fraser Valley.

3. Subdivisions like this one in Prince George played their part in a 7.3% increase in the number of telephones in service at the end of 1972.

Review of Operations

In 1972, unparalleled growth in demand for telephone and other telecommunications services in British Columbia resulted in completion of the Company's largest capital construction program. Expenditures for expansion and improvement of facilities during the year totalled $132.4 million, an increase of 17% over 1971.

Anticipating a continuation in the Province's growth, the Company's construction budget for 1973 totals $172.3 million. The 1973 construction program has been drawn up to meet these growth projections, to enable us to continue placing substantial amounts of telephone plant underground and to upgrade service.

The following table shows the increase in telephones in service and the detail of capital spending among the various operating divisions and Okanagan Telephone Company during the year. It also shows the net gain in telephones connected. The year-end total of telephones in service represented an increase of 7.3% over the number in service at December 31, 1971.

TELEPHONES IN SERVICE

Division	December 31 1972	Increase 1972	% Increase	Capital Expenditures 1972 (000's)
Coastal	703,283	44,382	6.7	$ 67,761
Island	214,820	12,776	6.3	21,915
Interior	112,184	9,955	9.7	17,874
Northern	83,276	7,201	9.5	16,989
Totals	1,113,563	74,314	7.2	124,539
Okanagan	66,775	6,233	10.3	7,866
Totals	1,180,338	80,547	7.3	$132,405

The increasing demand on long distance facilities was indicated by the fact that completed toll calls originating within our system in 1972 numbered approximately 55,000,000. This represented an increase of more than 10% over the previous year.

The Company's capital spending involved hundreds of projects, many of which were small in monetary terms when viewed against the over-all budget. However, the major assignments give an indication of the scope of our activities. Some of those projects are outlined here.

COASTAL DIVISION

The Coastal Division covers the Greater Vancouver, Fraser Valley and the surrounding Lower Mainland area. Nearly 60% of the Province's more than one million telephones are located in this area of high population density and rapid business and industrial development. A total of $67.8 million was spent during 1972 in supplying the additional telecommunications equipment required to serve this region.

Expansion of long distance switching facilities at Vancouver was accomplished at a cost of $2.6 million. Communication between the Mainland and Vancouver Island was improved with an increase in the number of circuits connecting Vancouver and Island communities.

Growth in the Fraser Valley, where the rural atmosphere is rapidly disappearing in many areas under the influx of commuters from Vancouver, was reflected in a major Extended Area Service (EAS) project. The thriving communities of Cloverdale and Langley became part of the Lower Mainland toll-free calling system. This marked the completion of an EAS project begun in late 1969 at a cost of nearly $2 million.

Large scale investments in plant extensions occurred in other areas of the Fraser Valley, including Abbotsford, where an annual growth rate of 10% required a 1972 investment of $825,000. Mushrooming subdivisions required similar expenditures in other Valley communities. Part of the over-all program concerned additions to the Pulse Code Modulated (PCM) carrier systems connecting Vancouver and communities in the south Fraser Valley. A PCM system gives us the capability of handling 24 conversations simultaneously on two pairs of trunk cable which previously could handle only two calls and provides greatly improved quality in voice transmission. The PCM development which began in the Coastal Division with eleven 24-channel systems in 1970 now has 71 systems.

Premium items of equipment sparked customer interest and resulted in a large increase in the Company's residential sales in 1972.

One of the largest teletypewriter exchange service systems in the Province was installed for a wholesale distribution firm. The system links the firm's 19 locations throughout the Province with its headquarters. Faster automatic teletype equipment, special dialing units and in-house communications provides the firm with an efficient and completely flexible data communications system.

ISLAND DIVISION

A new in-dial Centrex System was installed at the Parliament Buildings in Victoria to serve members of the Legislative Assembly and employees of the Provincial Government. The system serves about 1,250 telephone locals located in the legislative buildings and in other government-owned and leased buildings throughout the city. The Centrex provides direct dialing and Direct Distance Dialing for 140 separate government departments which make or receive about 8,000 local and long distance calls each day.

A total of $21.9 million was spent on capital construction in the Division which covers Vancouver Island and a portion of the mainland coast. Much of this went toward provision of new and expanded long distance facilities linking Victoria, Duncan and Nanaimo and between Nanaimo, Port Alberni and Parksville. The year also marked completion of a major addition to trunking facilities in the Victoria District, a project which began in 1971 and cost $855,000.

The Division also provided examples of the importance the Company places on underground installation of new cable and conduits throughout the Province. Buried cable improves reliability and the physical appearance of the communities involved. More than $1.9 million was spent for underground facilities in the Victoria District alone, including $878,000 in the City of Victoria. This included a project to provide underground service in a five-block area of the Victoria core as phase three of a five-year beautification program begun in 1970. More than $1.2 million was spent on underground facilities in the Nanaimo District and more than $1 million was spent for the same purpose in the Campbell River District.

Aside from the expenditures on switching and transmission systems, another indication of rapid growth of the area was seen in additions to the Port Alberni exchange office and the Blanshard Street building in Victoria. Work also began on a $685,000 two-storey annex being added to the Oak Bay central office which opened in 1968. This addition will more than double the size of the building and will accommodate a 6,600-line electronic exchange, the installation of which will commence in the latter part of 1973.

INTERIOR DIVISION

The densely populated Lower Mainland is not the only area of the Province experiencing great strides in industrial growth, with a consequent acceleration in population and increased demand for communications services. Williams Lake is expected to see a 35% increase in population within the next five years due to new developments in forestry and mining. This growth rate is more than double the growth rate for the Province during the past five years. To keep pace, the Company spent more than $869,000 to provide additional switching equipment for local and long distance calling and for buried cable. A new central office serving two new subdivisions and the Williams Lake airport went into service in December at a cost of $312,000. Also, construction was started on a $716,000 two-storey building addition to the principal office which will be used to house commercial, marketing and service centre staff as well as additional toll equipment.

Similar growth is evident in other areas of the Interior Division, which covers the East and West Kootenays and central interior. The 1972 spending program of $17.9 million included one of the largest projects ever undertaken by the Division. On December 2, Cominco, the world's largest miner of lead-zinc, with headquarters located at Trail, was converted to a Centrex System operated by our Company in that city. Tie trunks provide direct voice communication with other Cominco opera-

NORTHERN DIVISION — The most rugged terrain of the Province is served by 49 exchanges. There are over 83,000 telephones used by the people in this area of 238,000 square miles — 65 per cent of the Province's size.

ISLAND DIVISION — With the second largest number of telephones — over 214,000 — the Division serves an area of about 32,230 square miles through 40 exchanges.

Point Roberts, U.S.A., is supplied with service by B.C. Tel's Ladner exchange.

BRITISH COLUMBIA TELEPHONE COMPANY

Canadians are now in touch with their neighbours around the Pacific via space from their own earth station.

A big step for British Columbians came on June 1, 1972 when the first phase of a million-dollar microwave system linking B.C. Tel's radio network with the internationally-owned satellite, INTELSAT IV, was completed.

Calls from Pacific Rim countries come down to earth from the satellite at a station near Lake Cowichan on Vancouver Island. It is owned and operated by the Canadian Overseas Telecommunication Corporation (COTC).

* * *

Close by is another earth station built to service ANIK I, Canada's new domestic satellite which was launched November 9, 1972, and is now in orbit 22,300 miles above the equator over the Pacific.

B.C. Tel's expanded microwave system was built to carry signals to and from both earth stations through the radio tower on its headquarters building in Vancouver.

In the case of INTELSAT IV, these signals are relayed to and from COTC facilities in Vancouver. Signals between ANIK I and Vancouver will be fed into the Canadian telecommunications networks via B.C. Tel radio and cable facilities from April, 1973.

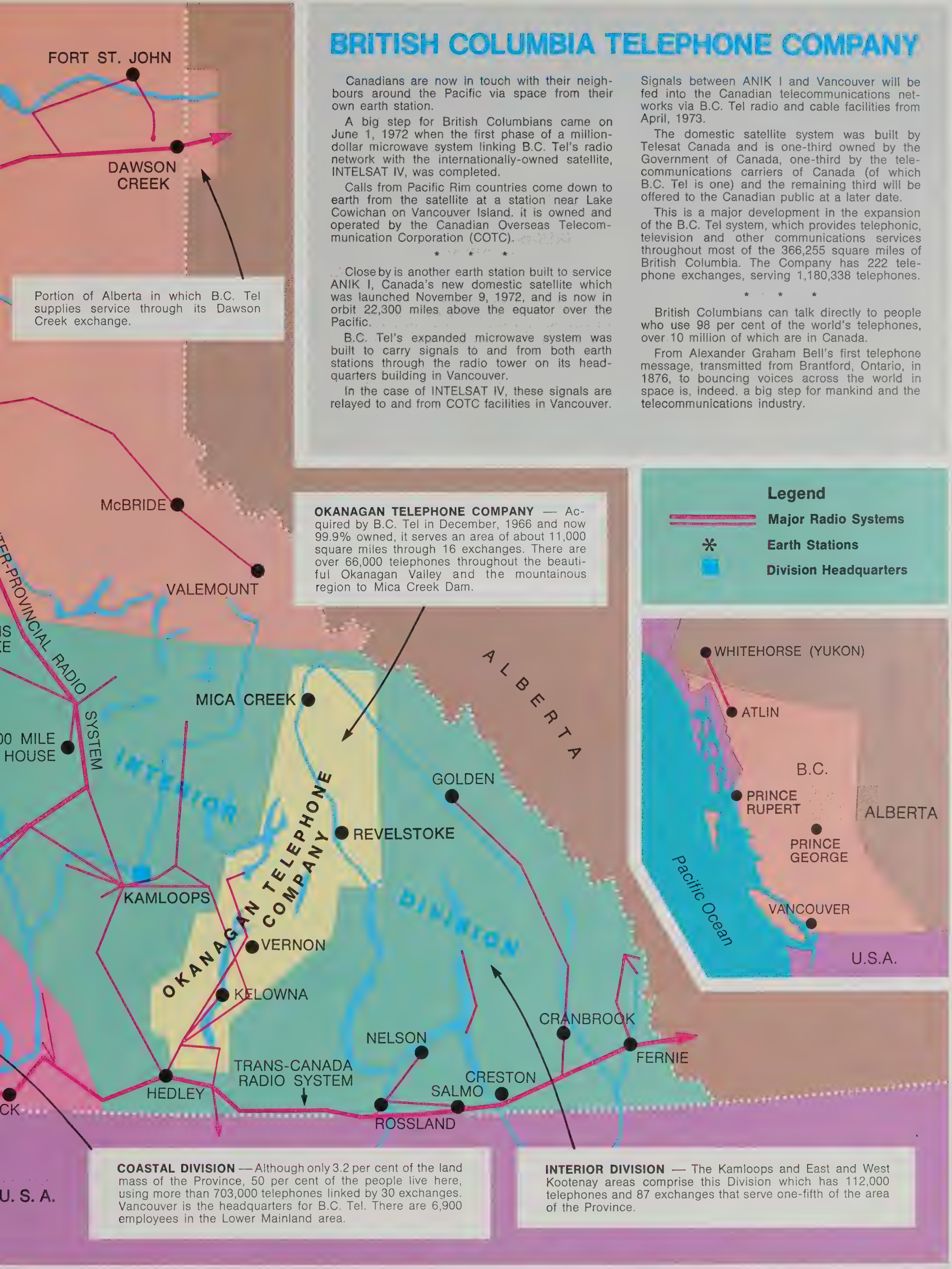
The domestic satellite system was built by Telesat Canada and is one-third owned by the Government of Canada, one-third by the telecommunications carriers of Canada (of which B.C. Tel is one) and the remaining third will be offered to the Canadian public at a later date.

This is a major development in the expansion of the B.C. Tel system, which provides telephonic, television and other communications services throughout most of the 366,255 square miles of British Columbia. The Company has 222 telephone exchanges, serving 1,180,338 telephones.

* * *

British Columbians can talk directly to people who use 98 per cent of the world's telephones, over 10 million of which are in Canada.

From Alexander Graham Bell's first telephone message, transmitted from Brantford, Ontario, in 1876, to bouncing voices across the world in space is, indeed, a big step for mankind and the telecommunications industry.



Portion of Alberta in which B.C. Tel supplies service through its Dawson Creek exchange.

OKANAGAN TELEPHONE COMPANY — Acquired by B.C. Tel in December, 1966 and now 99.9% owned, it serves an area of about 11,000 square miles through 16 exchanges. There are over 66,000 telephones throughout the beautiful Okanagan Valley and the mountainous region to Mica Creek Dam.

COASTAL DIVISION — Although only 3.2 per cent of the land mass of the Province, 50 per cent of the people live here, using more than 703,000 telephones linked by 30 exchanges. Vancouver is the headquarters for B.C. Tel. There are 6,900 employees in the Lower Mainland area.

INTERIOR DIVISION — The Kamloops and East and West Kootenay areas comprise this Division which has 112,000 telephones and 87 exchanges that serve one-fifth of the area of the Province.

tions, while data circuits were made available to their other operations in British Columbia, Alberta and Saskatchewan.

NORTHERN DIVISION

An important addition to long distance facilities in the Company's operating territory was completed during the year with the introduction of Direct Distance Dialing in the Peace River District. This project extended DDD service to Dawson Creek, Fort St. John, Chetwynd, Hudson's Hope, Portage, Montney, Taylor and Pouce Coupe. The $599,000 project involved equipment additions at every central office in the region.

The year also saw progress on an installation in Prince George that will extend Direct Distance Dialing to this area of the Province. The equipment, together with a new toll-switching machine, is being installed in the Company's new eight-storey office tower in Prince George, which was completed during the year. Some $1.8 million was spent on completion of the new building and an additional $2.4 million was spent for installation of long distance switching equipment.

A large portion of the total of $17 million spent in the Northern Division went toward new and improved microwave facilities linking the scattered communities of this huge area. The Division covers 238,000 square miles, the northern two-thirds of the Province. An example of the problems faced in serving the many small isolated communities of British Columbia was given with the introduction of automatic telephone service to the fishing village of Port Simpson, north of Prince Rupert on the coast. The three-stage project involved the transport by barge from Vancouver of a 120-line central office to provide about 100 residents with local service. Total cost of the project was $116,000.

OKANAGAN TELEPHONE COMPANY

Improvements and additions to the telephone system throughout the Okanagan Valley continued at a rapid pace in 1972, with expenditures totalling $7,893,000 made by our subsidiary company.

A gain in telephones of 10.3% (6,233 telephones) was of particular significance and indicated that the rich Okanagan regions continue to thrive as a result of their major industries—tourism, agriculture and forest resources. It was the largest gain ever made in the telephone system that serves customers in the Okanagan. At the end of the year, the Okanagan Company listed 66,775 telephones in service.

A total of $3,521,000 was spent on outside plant facilities as a result of this growth, as well as to make way for predictable additions to the telecommunications network. Central office equipment additions, which not only keep pace but also necessarily stay ahead of the number of calls placed through the local and toll network, were made at a cost of $1,876,000. One of the major projects completed was an electronically-controlled exchange at Lakeview, just outside of Kelowna. The exchange was completed at a total cost of $866,000.

NEW TECHNOLOGY

While we have given a broad outline of some of the main operational projects in which the Company was involved during 1972, we have mentioned only briefly some of the new technology introduced to our system during the year. The installation of more sophisticated equipment is one of our primary goals in keeping with our commitment to provide constantly improving service to our customers at reasonable cost.

One example of this improved technology was the computerized treatment of customer accounts which was introduced in the Trinity exchange in Vancouver during 1972. This computerized system was designed to make the review of customer accounts more efficient. It determines automatically which accounts are paid, which ones require special treatment and when and what treatment is necessary. All this was previously a manual task, so that service representatives are now free to give increased personal attention to customers.

Another development relating to customer accounts — and a first in Canada — came with the

A complete program of medical and health services assures the Company, and its customers, of maintaining a high level of employee health. This is partly accomplished through a comprehensive pre-employment interview and check-up, and partly through rehabilitation and consulting services which are aimed at prevention of illness, rather than its cure. The complete execution of the program — begun in the Lower Mainland area where more than 60% of the work force is located — is now in view through the planned addition of medical centres in Prince George, Kamloops and Victoria.

installation of an improved Optical Toll Ticket Scanner in the data preparation section of the Management Information Services Department. The scanner eliminates much of the manual handling of certain long distance call data, resulting in faster processing. Ticket information is "read" by the scanner at a rate of up to 1,200 tickets a minute, so that the handling time of the Company's 100,000 tickets a day is reduced to eight hours from the previous 24 hours. Faster billing assists most heavy toll users in that their accounts are more current. The project took one year to complete at a cost of about $100,000 and is expected to pay for itself within a year through savings in computer and staff time.

A new development in computer communications was introduced to the business community in September by our Company and other members of the Trans-Canada Telephone System. This was VUcom I, which can communicate information at three times the speed of existing teletype systems. It offers business customers a custom-designed system to suit almost all of their needs for data transmission. VUcom I functions as an electronic unit with display screen facilities and a standard teletypewriter keyboard with special function keys for communications control.

NEW APPROACH

A new organization established during the year was the Computer Communications Group which is made up of the eight members of the Trans-Canada Telephone System. This group was established to analyze and design data communications systems and provide and maintain the necessary equipment. It enables businesses with data-transmission requirements to draw on the resources and experience of the major companies in the Canadian telecommunications industry and will become increasingly important as new technology is developed for these customers.

OUTLOOK

The accelerating growth of telecommunications both within our operating territory and in relation to communications with other provinces and other countries will require an even larger program of expansion and improvement of facilities during 1973. The 1973 construction budget of $172.3 million exceeds the amount spent on plant during 1972 by 30%. Approximately 75% of the total investment in plant will involve the provision of facilities required because of growth which is expected to produce a net gain of over 85,000 telephones. The remaining 25% will be spent to upgrade existing plant and replace worn-out facilities.

A start will be made on a $19.7 million program involving the installation of second-generation electronic exchanges — the No. 1 EAX — in a number of larger exchanges in the Lower Mainland and on Vancouver Island. Where the C-1 EAX used in smaller communities can take up to 2,400 lines, its more advanced cousin will be called upon to handle more than 15,000 lines in some areas. The Fairfax exchange in Vancouver and the Oak Bay exchange on Vancouver Island will have the new exchanges in service by 1974. Four Lower Mainland exchanges will be completed the following year.

We are also actively pursuing the development of an inter-city television network in co-operation with, and for use by, the cable television industry in the Province. It would provide new microwave systems to service certain areas in central and northern British Columbia that now have limited or no service. It also would improve signals to existing systems throughout the Lower Mainland and Vancouver Island.

In order to provide the space required to house the increasing amounts of equipment needed to service our customers, construction will begin this year on an eight-storey addition to the Company's present headquarters building. While not yet finalized, arrangements are nearing completion for a new multi-storey headquarters building to be built in downtown Vancouver. This latter building is to house employees now located in our present building and in seven rented locations and will not be designed for equipment.

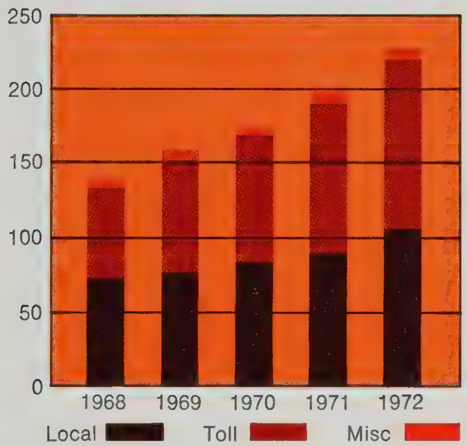
Financial Report

Consolidated gross revenues for the year were $227,765,000, an increase of 13.9% over 1971. While this growth in revenues had the benefit, for a full year, of revised tariffs which became effective September 1, 1971, the rate of growth was less than the 14.3% achieved in 1971.

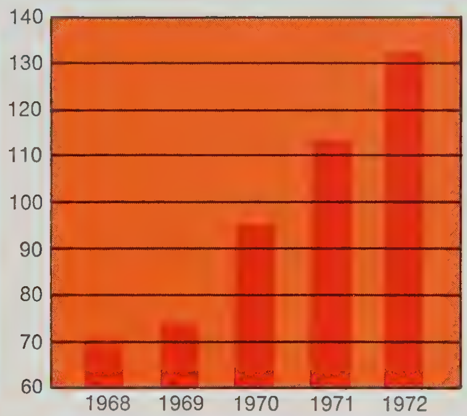
Toll revenues continued to exceed local service revenues and to grow at a faster rate. However, the growth rate for toll revenues at 14.7% was lower than the 17.8% accomplished in the previous year. Local service revenues increased 13.7%, compared with the 9.4% growth rate recorded in 1971. Miscellaneous revenues showed increases from directory advertising and circuit rentals. Uncollectible revenues also showed a small increase.

Operating expenses, excluding income taxes, amounted to $160,183,000, an increase of 12.8% over 1971 but less than the 15.5% increase experienced in the previous year. This slower rate of growth in expenses reflects a determined effort to increase efficiency and was accomplished in the face of very heavy activity, particularly in the last quarter.

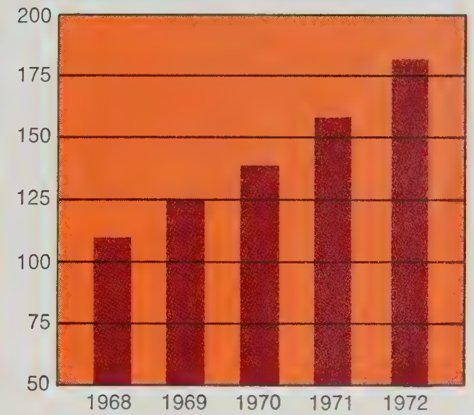
GROSS REVENUE
Millions of dollars



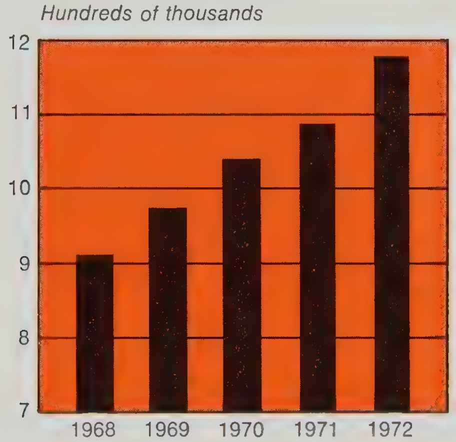
GROSS PLANT ADDITIONS
Millions of dollars



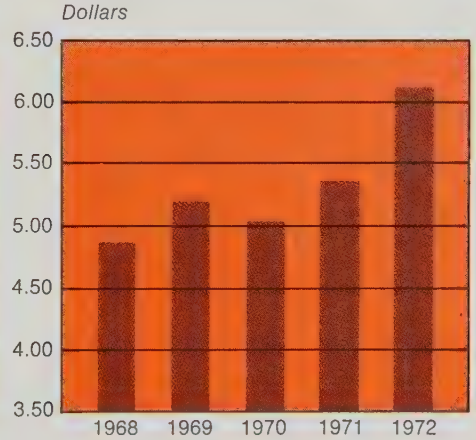
OPERATING EXPENSES
Millions of dollars



TELEPHONES IN SERVICE
Hundreds of thousands



EARNINGS PER SHARE
Dollars



Income taxes amounted to $20,122,000, compared with $16,872,000 in 1971. Temporary income tax reductions introduced in mid-1971 and continued throughout the year under review had the effect of increasing earnings per share by 47 cents in 1972 and 20 cents in 1971. Property and other taxes increased 15% to $8,849,000.

Other income of $2,156,000, compared with $1,423,000 in 1971, includes increased interest charged to construction, increased interest on short-term deposits and a gain on the sale of property.

Earnings before deduction of interest, other fixed charges and dividends totalled $49,616,000, up from $42,497,000 in 1971. This represented a rate of return of 7.82% on average invested capital, compared with 7.36% in 1971. Fixed charges of $24,756,000 and preference and preferred dividends of $5,098,000 both showed increases as a result of financing done during the year.

In June the Company sold a $20,000,000 issue of 800,000 cumulative redeemable preferred shares of $25 par value having a dividend rate of 7.04%. This was the first major sale of preferred shares in Canada for several years and it was well received by the market.

In September two series of First Mortgage Bonds were sold. Series T was for $40,000,000, bore a coupon of 8⅝% and will mature October 15, 1993. Series U was for $20,000,000 U.S., bore a coupon of 8⅛% and will mature November 1, 1996. Series U are the first bonds issued by the Company in U.S. dollars and the entire issue was sold to a U.S. institutional investor for investment purposes. Sufficient funds were obtained from these issues to repay all bank loans and other short-term borrowings.

Earnings available for ordinary shares amounted to $19,762,000 or $6.11 per average ordinary share, compared with restated 1971 earnings of $15,818,000 or $5.33 per share. The 1971 earnings have been restated downward as a result of a change in accounting policy which provides for vacation expense in the year that the vacations are earned rather than in the year taken. The rate of dividend on ordinary shares remained unchanged at $3.20 per share and ordinary dividends paid totalled $10,357,000.

Consolidated Statement of Earnings

For the years ended December 31, 1972 and 1971

	1972	1971
	Thousands of Dollars	
OPERATING REVENUES		
Local service	**$106,289**	$ 93,444
Toll service	**114,742**	100,045
Miscellaneous	**8,928**	8,198
Less — Uncollectible operating revenues	**2,194**	1,795
Total Operating Revenues	**227,765**	199,892
OPERATING EXPENSES		
Maintenance	**49,173**	42,518
Depreciation	**43,326**	38,454
Traffic	**19,662**	17,355
Commercial and marketing	**14,671**	12,879
General and administrative (Note 2)	**24,502**	23,056
Provincial, municipal and other taxes	**8,849**	7,684
Income taxes	**20,122**	16,872
Total Operating Expenses	**180,305**	158,818
OPERATING EARNINGS	**47,460**	41,074
Other income	**2,156**	1,423
Earnings Before Interest and Other Deductions	**49,616**	42,497
INTEREST AND OTHER DEDUCTIONS		
Interest on long-term debt	**23,013**	19,493
Other interest	**1,356**	2,439
Amortization of long-term debt expense	**387**	356
	24,756	22,288
NET EARNINGS	**24,860**	20,209
Preference and preferred dividends	**5,098**	4,391
ORDINARY SHARE EARNINGS	**$ 19,762**	$ 15,818
EARNINGS PER AVERAGE ORDINARY SHARE	**$6.11**	$5.33
DIVIDENDS DECLARED PER ORDINARY SHARE	**$3.20**	$3.20

Consolidated Balance Sheet

As at December 31, 1972 and 1971

Assets

	1972	1971
	Thousands of Dollars	
TELEPHONE PLANT, at cost	$961,490	$854,646
Less — Accumulated depreciation	219,229	197,190
	742,261	657,456
INVESTMENTS AND OTHER ASSETS, at cost		
Telesat Canada	3,300	2,750
Other	672	673
	3,972	3,423
CURRENT ASSETS		
Cash and short-term investments	5,330	625
Accounts receivable	30,128	25,365
Income taxes recoverable	—	2,719
Material and supplies, at cost	8,416	7,778
Prepayments	2,824	2,690
	46,698	39,177
DEFERRED CHARGES		
Unamortized long-term debt expense	6,463	5,858
	$799,394	$705,914

Approved for Board of Directors,

A. M. McGavin, Director

J. E. Richardson, Director

Liabilities

	1972	1971
	Thousands of Dollars	
CAPITALIZATION (per accompanying statement)		
Ordinary share equity	$193,432	$184,560
Preference and preferred shares	103,500	83,500
Minority interest in subsidiary	455	456
Long-term debt	377,529	317,954
Total Capitalization	674,916	586,470
SHORT-TERM NOTES	—	22,630
Total Capitalization and Short-Term Notes	674,916	609,100
CURRENT LIABILITIES (excluding current redemptions of long-term debt and short-term notes)		
Accounts payable	20,923	14,225
Income taxes payable	737	—
Dividends payable	3,864	3,512
Accrued interest	6,332	5,828
Other accrued liabilities	5,915	4,866
Unearned revenues	4,855	4,130
	42,626	32,561
INCOME TAXES DEFERRED	81,852	64,253
COMMITMENTS (Notes 4 and 5)		
	$799,394	$705,914

Consolidated Statement of Capitalization

As at December 31, 1972 and 1971

	Redemption Premium	1972		1971	
		Thousands of Dollars			
Authorized Share Capital $250,000,000					
ORDINARY SHARE EQUITY (Note 6)					
Ordinary shares of par value of $25 each; 3,236,625 shares issued and outstanding		**$ 80,916**		$ 80,916	
Premium on ordinary shares		**53,706**		53,706	
Earnings retained for use in the business		**58,810**		49,938	
		193,432	**29%**	184,560	32%
CUMULATIVE PREFERENCE AND PREFERRED SHARES					
Par Value of $100 Each					
6% Preference	10%	**1,000**		1,000	
6% Preferred	5%	**4,500**		4,500	
4¾% Preferred	5%	**7,500**		7,500	
4¾% Preferred (Series 1956)	4%	**7,500**		7,500	
4½% Preferred	4%	**5,000**		5,000	
4⅜% Preferred	4%	**6,000**		6,000	
5¾% Preferred	4%	**10,000**		10,000	
5.15% Preferred	5%	**12,000**		12,000	
Par Value of $25 Each					
4.84% Preferred	4%	**20,000**		20,000	
6.80% Preferred (Not redeemable before June, 1978)	6%	**10,000**		10,000	
7.04% Preferred (Not redeemable before July, 1982)	7%	**20,000**		—	
		103,500	**15%**	83,500	14%
MINORITY INTEREST IN SUBSIDIARY		**455**		456	
LONG-TERM DEBT					
British Columbia Telephone Company					
First Mortgage Bonds					
Series E 4¾% due October 1, 1975		**7,000**		7,000	
Series F 5% due April 1, 1982		**25,000**		25,000	
Series G 5¼% due November 1, 1983		**20,000**		20,000	
Series H 6% due September 15, 1984		**15,000**		15,000	
Series I 5¾% due August 1, 1985		**15,000**		15,000	
Series J 5¾% due July 15, 1986		**20,000**		20,000	
Series K 5⅝% due April 15, 1988		**20,000**		20,000	
Series L 6¾% due October 15, 1989		**30,000**		30,000	
Series M 6⅜% due March 15, 1991		**30,000**		30,000	
Series N 9⅛% due April 1, 1990		**30,000**		30,000	
Series O 9⅝% due November 15, 1992		**18,000**		18,000	
Series P 9⅛% due November 15, 1992		**12,000**		12,000	
Series Q 8¼% due March 1, 1994		**35,000**		35,000	
Series R 7½% due November 15, 1978		**10,000**		10,000	
Series S 7⅞% due November 15, 1995		**25,000**		25,000	
Series T 8⅝% due October 15, 1993		**40,000**		—	
Series U 8⅛% due November 1, 1996 ($20 million U.S. funds)		**19,809**		—	

	1972		1971	
	Thousands of Dollars			
Okanagan Telephone Company				
General Mortgage Sinking Fund Bonds due 1975 to 1986 at interest rates of 5% to 6½%	$ 5,720		$ 5,954	
	377,529	56%	317,954	54%
Total Capitalization	674,916	100%	586,470	100%
SHORT-TERM NOTES (pending permanent financing)	—		22,630	
Total Capitalization and Short-Term Notes	$674,916		$609,100	

The Deed of Trust and Mortgage of British Columbia Telephone Company requires an annual sinking fund payment of 1% of the principal amount of its bonds outstanding or the pledge of additional unmortgaged property. The Company's policy is to use the latter alternative and therefore in effect does not make sinking fund payments. The Deed of Trust and Mortgage of Okanagan Telephone Company requires an annual sinking fund payment of 2% of the original principal sum of each issue and this requirement, together with the debt maturities of both companies during each of the next five years, is: 1973, Nil; 1974, $65,000; 1975, $7,454,000; 1976, $133,000; 1977, $405,000. In addition, the holders of any Series N or P Bonds have the right to elect that the Company shall repay the principal amount of such Bonds on April 1, 1975 and November 15, 1976 respectively.

At December 31, 1972, the First Mortgage Bonds, except for Series N, P and R, are redeemable, other than for financial advantage, at premiums ranging from ½% to 9%. The Okanagan Telephone Company's General Mortgage Sinking Fund Bonds are callable at premiums ranging from 1% to 5¼%.

Consolidated Statement of Earnings Retained for Use in the Business

For the years ended December 31, 1972 and 1971

	1972	1971
	Thousands of Dollars	
BALANCE AT BEGINNING OF YEAR		
As previously reported	$ 51,544	$ 45,130
Less — Adjustment of prior years' earnings, net of income tax (Note 3)	1,606	1,400
As restated	49,938	43,730
Ordinary share earnings	19,762	15,818
	69,700	59,548
Less —		
Ordinary share dividends	10,357	9,494
Share issue expense	533	116
BALANCE AT END OF YEAR	$ 58,810	$ 49,938

Consolidated Statement of Source of Funds Used for Construction

For the years ended December 31, 1972 and 1971

	1972	1971
	Thousands of Dollars	
SOURCE OF FUNDS		
From Operations		
Ordinary share earnings	$ 19,762	$ 15,818
Add back expenses not requiring an outlay of funds		
Depreciation	43,326	38,454
Income taxes deferred	15,078	10,572
Other	814	810
	78,980	65,654
Less — Ordinary share dividends	10,357	9,494
	68,623	56,160
Financing Proceeds (Net)		
Ordinary shares	—	20,032
Preferred shares	19,467	—
Long-term debt	58,788	68,857
Maturity of Series A to D First Mortgage Bonds	—	(35,500)
Decrease in short-term notes	(22,630)	(774)
	55,625	52,615
Other		
Decrease in working capital	2,544	1,036
Miscellaneous	2,756	142
	5,300	1,178
	$129,548	$109,953
CONSTRUCTION EXPENDITURES		
Gross plant additions	$132,405	$113,106
Less — Salvage value of plant retired	2,857	3,153
	$129,548	$109,953

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) CONSOLIDATION

The Company owns 99.9% of the common shares of Okanagan Telephone Company and the consolidated financial statements incorporate this subsidiary company's accounts.

(b) TELEPHONE PLANT

Telephone plant is recorded at original cost. Included in original cost are certain pension costs, payroll taxes and general overheads applicable to the construction activity. The Company follows the practice of deducting from income for tax purposes these construction-related costs. The tax effect of such timing differences is being deferred.

(c) DEPRECIATION

Depreciation rates are determined by a continuing program of engineering studies for each class of telephone plant in service, and depreciation provisions are calculated by applying such rates to the Company's investment therein each month. This procedure resulted in a composite rate of 5.14% (5.10% in 1971).

Accumulated depreciation at December 31, 1969, was overstated by an amount of $6,368,000 resulting from a change to a more appropriate method of determining the depreciation rate applicable to the Company's investment in telephone station connections. This over-provision is being eliminated over a five-year period which commenced in 1970.

(d) INCOME TAXES

The Company provides for income taxes which are not currently payable due to the Company claiming for income tax purposes certain amounts, including capital cost allowances in excess of depreciation recorded in the accounts, which have not yet been charged against income. Income taxes include $15,078,000 ($10,572,000 in 1971) of taxes not currently payable.

The accumulated amount of income taxes otherwise payable as a result of tax timing differences is shown on the balance sheet as Income Taxes Deferred.

Prior to December 31, 1971, the Company did not recognize income taxes otherwise payable relating to pension costs which were capitalized in the accounts; the accumulated amount of such income taxes, for which no retroactive adjustment is required, is $5,284,000.

(e) INTEREST DURING CONSTRUCTION

The Company capitalizes interest on funds used to finance construction as a component of the cost of telephone plant based on size and duration of projects. The amount so capitalized is $1,666,000 ($1,519,000 in 1971) and is included in the caption Other Income.

2. General and Administrative Expense

	1972	1971
	Thousands of Dollars	
Finance and data processing services . .	$ 7,840	$ 7,854
Engineering	3,627	3,502
Executive and administrative services	5,194	4,390
Stationery, rents, insurance and other . .	4,965	4,329
Pension and other benefits	8,363	7,418
Less – Charged to construction	5,487	4,437
	$24,502	$23,056

During the year ended December 31, 1972, there were 11 directors who received aggregate remuneration of $18,000 as directors, and 11 officers who received aggregate remuneration of $388,000 as officers. One director was also an officer; none of the directors or officers received remuneration from a subsidiary of the Company.

3. Accrued Vacation Pay

In 1972, the Company changed its policy with respect to recognizing costs of employee vacations. Prior to 1972, these costs were recorded when the vacations were taken whereas they are now recorded as the vacations are earned. The 1971 comparative amounts have been restated to reflect this change which had the effect of increasing other accrued liabilities by $3,414,000, decreasing net earnings by $206,000, decreasing earnings retained for use in the business by $1,400,000, decreasing deferred taxes by $868,000 and increasing telephone plant by $940,000 from the amounts previously reported.

4. Pension Plan

The Company and its subsidiary have pension plans under which employees, upon retirement, are provided a monthly pension if conditions related to age and period of service have been met. The Company funds the annual pension cost accrued and the fund exceeds any benefits vested with the employees.

The total pension provision accrued was $6,144,000 ($5,367,000 in 1971) which includes $1,291,000 (same as 1971) for the amortization of past service costs together with interest thereon over 25 years from January 1, 1965. Based on an actuarial study received during 1971, the estimated unfunded liability for past service cost is $13,465,000 at December 31, 1972.

5. Construction Program

The Company and its subsidiary have announced construction programs for additional telephone plant and facilities in 1973 which are estimated to cost $172,300,000 and substantial purchase commitments have been made in connection therewith. The companies intend to finance their construction programs by cash available from operations to the extent of approximately 50% and the balance by short-term notes pending permanent financing.

6. Employee Share Purchase Plan

On June 22, 1972, the directors of the Company approved an offering of 100,000 ordinary shares of the Company to eligible employees of the Company and Okanagan Telephone Company under the Company's Employee Share Purchase Plan. Subsequently, eligible employees have elected to make installments toward the potential purchase of 20,061 ordinary shares of the Company under the terms of the plan.

Auditors' Report

To the Shareholders of
British Columbia Telephone Company:

We have examined the consolidated balance sheet and statement of capitalization of BRITISH COLUMBIA TELEPHONE COMPANY and its subsidiary, Okanagan Telephone Company, as of December 31, 1972 and December 31, 1971, and the related consolidated statements of earnings, earnings retained for use in the business and source of funds used for construction for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements referred to above present fairly the financial position of British Columbia Telephone Company and its subsidiary as of December 31, 1972 and December 31, 1971, and the results of their operations and the source of funds used for construction for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in accounting for accrued vacation pay referred to in Note 3 to the financial statements.

Vancouver, Canada
January 31, 1973

ARTHUR ANDERSEN & CO.
Chartered Accountants

Consolidated Five-Year Record of Progress

	Particulars	1972
	SELECTED INCOME ITEMS (Thousands of Dollars)	
1	Total operating revenues	$ 227,765
2	Local service	106,289
3	Toll service	114,742
4	Total operating expenses	180,305
5	Salaries and wages	73,819
6	Other operations expense	34,189
7	Depreciation	43,326
8	Provincial, municipal and other taxes	8,849
9	Income taxes	20,122
10	Interest and other deductions	24,756
11	Preference and preferred dividends	5,098
12	Ordinary share earnings	19,762
13	Ordinary share dividends	$ 10,357
	SELECTED BALANCE SHEET ITEMS (Thousands of Dollars)	
14	Investment in telephone plant	$ 961,490
15	Accumulated depreciation	219,229
16	Total invested capital	675,451
17	Long-term debt	377,529
18	Preference and preferred shares	103,500
19	Ordinary share equity	$ 193,432
	FINANCIAL RATIOS	
20	Earnings per average ordinary share	$ 6.11
21	Dividends declared per ordinary share	$ 3.20
22	Equity per ordinary share	$ 59.76
23	Percent return on average ordinary share equity	10.48
24	Percent return on average invested capital	7.82
25	Percent long-term debt to total capitalization	56
	OTHER STATISTICS	
26	Telephones in service	1,180,338
27	Percent DDD	92.5
28	Net plant investment per telephone	$ 629
29	Gross plant additions (Thousands of Dollars)	$ 132,405
30	Local calls — daily average	7,364,000
31	Toll calls completed — daily average	172,000
32	Total salaries and wages (Thousands of Dollars)	$ 103,245
33	Total pensions and related payroll costs (Thousands of Dollars)	$ 9,461
34	Number of employees	10,816
35	Number of shareholders	24,362

1971	1970	1969	1968
$ 199,892	$ 174,870	$ 158,044	$ 139,389
93,444	85,448	78,363	72,641
100,045	84,906	74,969	63,931
158,818	139,886	125,576	109,573
64,520	54,167	44,546	38,950
31,288	27,413	24,084	20,215
38,454	34,338	32,719	28,832
7,684	6,996	6,298	5,595
16,872	16,972	17,929	15,981
22,288	17,687	14,740	13,975
4,391	4,391	4,391	4,179
15,818	14,419	14,464	12,614
$ 9,494	$ 8,775	$ 8,416	$ 6,991
$ 854,646	$ 760,338	$ 682,394	$ 619,528
197,190	174,571	155,765	133,396
609,100	549,597	495,615	463,950
317,954	284,030	224,538	224,701
83,500	83,500	83,500	83,500
$ 184,560	$ 158,203	$ 152,559	$ 129,289
$ 5.33	$ 5.01	$ 5.16	$ 4.87
$ 3.20	$ 3.05	$ 3.00	$ 2.70
$ 57.02	$ 54.99	$ 53.02	$ 49.93
9.57	9.30	9.95	10.00
7.36	6.99	7.02	6.82
54	54	49	51
1,099,791	1,037,684	974,823	914,304
91.3	91.6	89.3	88.1
$ 598	$ 564	$ 540	$ 532
$ 113,106	$ 95,111	$ 74,666	$ 70,803
7,085,000	6,281,000	6,054,000	5,557,000
155,000	137,000	122,000	104,000
$ 88,724	$ 74,217	$ 60,808	$ 53,372
$ 8,162	$ 6,761	$ 5,434	$ 4,441
10,274	9,636	8,889	7,991
22,287	22,927	23,503	24,274

A Spirit of Urgency

The ability of B.C. Tel's people to act in a spirit of urgency was never more clearly shown than during the worst ice storm to hit the Fraser Valley area since 1935.

There was more than $1 million damage to the Trans-Canada toll lead between Hope and Chilliwack and to the telephone system which supplied local service in many parts of the Fraser Valley. The January storm, a combination of high winds, heavy snow and withering cold, left a twisted, crystal-coated mass of wreckage and temporarily isolated thousands of customers. Crews of repairmen had to wait until downed power lines had been disposed of before they could tackle the job of restoring service. The repair job was awesome — men loaded reels of cable onto a flat car at Matsqui station and payed out the cable as the speeder pulled the reel through areas littered with felled poles and wire.

Snowslides and freezing rain hit the Hope-Princeton Highway, isolating Hope, Yale and Boston Bar. Motorists, bus passengers and truck drivers were trapped without communications until emergency radiotelephone service was established at Hope.

The launching of ANIK I, Canada's first satellite, Nov. 9, 1972.

B.C. Tel, part of
Trans-Canada
Telephone System

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B.C. TEL

768 Seymour St., Vancouver, B.C., Canada

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BRITISH COLUMBIA TELEPHONE COMPANY

Quarterly Report to Shareholders

for the period ended June 30, 1972

TO OUR SHAREHOLDERS:

EARNINGS: The accompanying Consolidated Statement of Earnings has been rearranged so as to present, in comparative columns, the results for the previous two years instead of just the prior year. Also, the figures shown are now for the current quarter and year-to-date rather than year-to-date and twelve months to date which has been our practice for some years. These changes have been made in an effort to illustrate more clearly the pattern of earnings over a longer period.

Earnings per share for the six months ended June 30, 1972 show a growth of 50% over the same period of 1971, but when compared with 1970 the growth is 9% per year. Increased money costs and higher operating expenses produced a declining trend in earnings which became definitely apparent in the last quarter of 1970 and continued into 1971. This trend resulted in an application to the Canadian Transport Commission for rates that would increase revenues, and a revised schedule was approved to become effective September 1, 1971. While the increased revenues were less than we felt were required, they have resulted in an improvement in current earnings. However, when these improved earnings are compared with the depressed earnings of the first half of 1971, the comparison becomes distorted and must be related to a longer period.

It must also be noted that the 1972 earnings include 21¢ per share that is the direct result of temporary corporate tax reductions which became effective July 1, 1971 and which the May 8, 1972 Federal Budget Speech did not extend beyond their scheduled termination date of December 31, 1972.

Return on average invested capital for the six month period was 3.74% as compared with 3.22% in 1971 and 3.37% in 1970 for the same period.

SERVICE DEVELOPMENT: The gain in telephones in service for the six month period, as set out in the following table, showed considerable improvement over last year and was ahead of 1970:

	January 1 to June 30		
	1972	1971	1970
B.C. Tel	28,349	21,133	26,997
Okanagan	2,376	2,491	2,105
Total	30,725	23,624	29,102

Telephones in service at June 30, 1972 totalled 1,130,516.

Gross expenditures on new plant amounted to $55,732,000 compared with $54,836,000 in 1971 and $47,458,000 in 1970.

FINANCING: The last sale of preferred shares by the Company was in 1968 and since that time the financial markets have not been receptive to this type of security. However, early this year there were indications of growing interest in preferred shares and at a Special General Meeting of Shareholders held on June 6, 1972 an issue of $20,000,000 — 7.04% cumulative redeemable preferred shares was authorized, subject to the approval of the Telecommunication Committee of the Canadian Transport Commission. This approval was obtained following a public hearing held in Ottawa on June 7, 1972. The issue has now been successfully marketed and the proceeds were received on June 30, 1972 and used to reduce outstanding bank demand loans.

Further financing will be required later in the year; in the meantime, capital expenditures are being financed through bank loans and the commercial paper market.

President and Chief Executive Officer

Vancouver, B.C.
July 31, 1972

BRITISH COLUMBIA TELEPHONE COMPANY

CONSOLIDATED STATEMENT OF EARNINGS

(Subject to audit and year-end adjustment)

	Three Months Ended June 30			Six Months Ended June 30		
	1972	**1971**	**1970**	**1972**	**1971**	**1970**
	Thousands of Dollars			Thousands of Dollars		
Operating revenues	$ 55,527	$ 48,146	$ 43,648	$ 109,241	$ 93,502	$ 84,448
Operating expenses	39,115	35,671	31,225	77,760	69,642	60,232
Net operating earnings before income taxes	16,412	12,475	12,423	31,481	23,860	24,216
Other income	429	330	441	764	650	789
	16,841	12,805	12,864	32,245	24,510	25,005
Interest and other deductions	6,154	5,488	4,338	12,098	10,646	8,345
Net earnings before income taxes	10,687	7,317	8,526	20,147	13,864	16,660
Income taxes	4,822	3,401	4,021	9,084	6,415	7,885
Net earnings	5,865	3,916	4,505	11,063	7,449	8,775
Dividends on preference and preferred shares	1,096	1,093	1,093	2,199	2,196	2,196
Net earnings available for ordinary shares	$ 4,769	$ 2,823	$ 3,412	$ 8,864	$ 5,253	$ 6,579
Earnings per average ordinary share outstanding during period	$1.47	$.99	$1.19	$2.74	$1.83	$2.29

BRITISH COLUMBIA TELEPHONE COMPANY

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(Subject to audit and year-end adjustment)

	Six Months Ended June 30	
	1972	**1971**
	Thousands of Dollars	
SOURCE OF FUNDS		
From Operations		
Ordinary share earnings	$ 8,864	$ 5,253
Add back expenses not requiring an outlay of funds		
Depreciation	20,763	18,827
Income taxes deferred	10,177	5,212
Other	405	423
	40,209	29,715
Financing Proceeds (Net)		
Long-term debt	—	34.407
Maturity of Series A to D First Mortgage Bonds	—	(35,500)
Preferred shares	19,491	—
Increase (decrease) in short-term notes	(2,774)	22,516
	16,717	21,423
	$56,926	$51,138
APPLICATION OF FUNDS		
Gross plant additions	$55,732	$54,836
Less—Salvage value of plant retired	1,254	1,571
	54,478	53,265
Ordinary share dividends	5,179	4,603
Miscellaneous	1,554	2,321
Net change in working capital	(4,285)	(9,051)
	$56,926	$51,138